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Report Highlights:

Kazakhstan's 2006 wheat production is forecast at 11.5 million metric tons (MMT) an increase of 500,000 MT over 2005 production. Much will depend on weather conditions during the remainder of the growing season, which is critical for crop development. MY2006/07 total wheat exports should rebound to 4.5 MMT given improved quality and higher demand from traditional importers.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Ankara [TU1]
[KZ]

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Executive Summary

Kazakhstan's MY2006/07 grain production is expected to increase slightly to 14.5 MMT assuming normal weather conditions will persist during the rest of the growing season. Grain production area is expected to remain unchanged at 14.5 million hectares. Smaller snowfall occurred in north Kazakhstan where the winter grain crop is not significant. Most winter wheat is grown in the southern and western parts of Kazakhstan. No significant winterkill was officially reported in Kazakhstan this year. MY 2006/07 wheat exports forecast is 4.5 MMT anticipating increases in demand from Russia and other CIS countries due to lower domestic production in those countries.

In 2005, total grain production was officially reported at 13.5 MMT an increase of 1.1 MMT from the previous year due to better weather conditions in the major grain producing areas. Despite an intense summer drought in the northwestern part of the country, which destroyed about 200,000 hectares of planted wheat and significantly reduced yields on remaining fields, average grain yields in Kazakhstan were higher than those in 2004 due to better yields in the northern and southern regions. MY 2005/06 wheat exports are estimated at 3.2 MMT an increase slightly from the previous year, due to higher local production and demand from the neighboring CIS (Commonwealth Independent States) countries.

Production**Wheat**

Kazakhstan wheat production is forecast at 11.5 MMT in 2006, assuming normal weather conditions during the remainder of the growing season. Wheat planted area is expected to remain unchanged compared with the previous year. The absence of significant snow during the winter will make spring rains critical for plant development. Smaller snowfall occurred in north Kazakhstan where the winter grain crop is not significant. Most winter wheat is grown in the southern and western parts of Kazakhstan. No significant winterkill was officially reported in Kazakhstan this year.

Kazakhstan wheat production in 2005 was officially reported at 11.0 MMT a 1.0 MMT increase from the previous year despite no change in planted area. A summer draught in northwestern regions destroyed about 200,000 hectares of wheat and significantly reduced yields on remaining fields. Also, about 2.0 million hectares were affected by rust that resulted in lower yields and reduced grain quality. The GOK funded spraying on about 1.0 million hectares with spraying on remaining fields paid by producers. However, summer rainfalls resulted better than average yields in the northern regions, the major grain producing area of the country, which led to higher overall production. At the same time, late summer rainfall in the northern part of the country deteriorated wheat quality including lower gluten content and higher dockage. Specialists estimate that about 70 percent of total harvested wheat can be classified as class 3 (available for the bread production) and remaining as feed wheat.

During Soviet times, area under grain cultivation reached as high as 25 million hectares. The GOK recommends using more fertile land for grain production while avoiding marginal land. As a result the Ministry of Agriculture believes that total grain area should be kept under 12-15 million hectares, including 10-12 for wheat and 2-3 million for other grains. Within last two years area under other crops such as oilseeds have been planted but this will not affect grain production because it is on land that is not currently being farmed. The GOK also recommends that grain producers decrease area under the grain cultivation due to the small market for low quality wheat and instead concentrate on increasing grain quality. According to the MOA (Ministry of Agriculture) recommendations, the optimal growing area for grains is 10.0 million hectares. Specialist assume that high quality Kazakh wheat could compete with Russian and Ukrainian wheat in North African, Middle Eastern and

European markets. The GOK is attempting to assist grain producers to increase yields and improve quality through subsidies on agriculture chemicals and fuel for grain producers. In 2005, the GOK allocated about 15 billion KZT for the subsidies and the same amount is planned for 2006.

Kazakhstan eliminated all state farms during the 1990s putting all production in the private sector. Large grain companies that control farms, elevators and flour milling facilities produce about 75 % of all grain. These companies also provide inputs for farms.

PS&D, Wheat

Kazakhstan, Republic of Wheat							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate[New]	
Market Year Begin		07/2004		07/2005		07/2006	MM/YYYY
Area Harvested	11800	11800	11800	11800	0	11800	(1000 HA)
Beginning Stocks	3777	3800	3642	3765	4057	4070	(1000 MT)
Production	9950	9950	11000	11000	0	11500	(1000 MT)
TOTAL Mkt. Yr. Imports	15	15	15	15	0	10	(1000 MT)
Jul-Jun Imports	15	15	15	15	0	10	(1000 MT)
Jul-Jun Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	13742	13765	14657	14780	4057	15580	(1000 MT)
TOTAL Mkt. Yr. Exports	2700	2700	3200	3200	0	4500	(1000 MT)
Jul-Jun Exports	2700	2700	3200	3200	0	4500	(1000 MT)
Feed Dom. Consumption	2700	2700	2700	2800	0	2800	(1000 MT)
TOTAL Dom. Consumption	7400	7300	7400	7510	0	7510	(1000 MT)
Ending Stocks	3642	3765	4057	4070	0	3570	(1000 MT)
TOTAL DISTRIBUTION	13742	13765	14657	14780	0	15580	(1000 MT)

Barley

Barley production is forecast at 1.8 MMT in 2006 assuming normal weather conditions during the remainder of the growing season. Planting area remains unchanged. In 2006 barley production will be limited by lower prices and large stocks of poor quality wheat remained from the last year crops and low exports demand as well.

Total barley production in 2005 was officially reported at 1.5 MMT, which was collected from 1.5 million hectares. Area and production have been stable over the past two years. Slight increases in livestock inventories do not significantly affect barley production.

Dairy, poultry and swine farms produce barley primarily for their own use. About 50 percent of total harvested barley in Kazakhstan is used on these farms. The remaining 50 percent is sold for export or for domestic poultry, dairy, swine and horse facilities. In addition, most households use barley for feed due because it is less costly compared with feed wheat or other grains. Domestic prices for barley are about 15-20 percent less than wheat.

PS&D, Barley

Kazakhstan, Republic of Barley							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate New]	USDA Official [Old]	Post Estimate New]	USDA Official [Old]	Post Estimate New]	
Market Year Begin		07/2004		07/2005		07/2006	MM/YYYY
Area Harvested	1700	1700	1600	1500	0	1500	(1000 HA)
Beginning Stocks	399	500	249	150	149	100	(1000 MT)
Production	1500	1500	1500	1500	0	1800	(1000 MT)
TOTAL Mkt. Yr. Imports	0	0	0	0	0	0	(1000 MT)
Oct-Sep Imports	0	0	0	0	0	0	(1000 MT)
Oct-Sep Import U.S.	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	1899	2000	1749	1650	149	1900	(1000 MT)
TOTAL Mkt. Yr. Exports	100	100	200	100	0	300	(1000 MT)
Oct-Sep Exports	100	100	200	100	0	300	(1000 MT)
Feed Dom. Consumption	1450	1650	1300	1450	0	1500	(1000 MT)
TOTAL Dom. Consumption	1550	1750	1400	1450	0	1500	(1000 MT)
Ending Stocks	249	150	149	100	0	100	(1000 MT)
TOTAL DISTRIBUTION	1899	2000	1749	1650	0	1900	(1000 MT)

Corn

Corn for grain is produced only in three Southern oblasts due to climate conditions: Almaty (65% of total), Jambul (17%) and Shymkent (15%) due to climate conditions. Often late spring frosts and short vegetation period do not allow farmers to grow corn for grain in other regions. Southern corn production is limited by undeveloped livestock sectors and competition with other crops on irrigated lands such as cotton, tobacco, vegetables and fodder crops like alfalfa. Also, corn production for grain is more expensive than production of other feed grain. In 2005, corn for grain has been planted on 105,000 hectares and total production estimated at 450,000 MT.

Consumption**Wheat**

In MY2005/06 wheat domestic consumption is expected to increase by 100,000 MT compared with the previous year due to higher utilization for feed. Specialists estimate that about 30 % of wheat total harvested in 2005 can be used only for the feed due to poor quality. Domestic consumption for food (2.5 MMT), planting (2.0 MMT) and industrial processing (400,000 MT) are unchanged over the last two years.

MY 2006/07 total wheat domestic consumption is forecast at 2.8 MMT an increase of 100,000 due to anticipated increases in feed consumption related with larger stocks of low quality grain from last year's harvest. This also resulted in lower prices for feed wheat on the domestic market. Domestic consumption for food, planting and industrial use is not expected to change in MY2006/07.

Barley

Barley is the major feed grain in Kazakhstan but its consumption limited by the under developed livestock sector and competition with low quality wheat. MY2006/07 barley consumption is forecast to remain unchanged at 1.5 MMT due to unchanged production and no significant increase for feed in the livestock sectors.

The quality of barley is good for feed but not for production of malt. Most of the malting barley for breweries is imported from Europe. In addition, Kazakhstan has no processing facilities for malt. There is one malting plant near Almaty with outdated technology, which produces about 30,000 MT of malt a year for local brands of beer. Most of the barley is produced at the same oblasts as wheat (Kostanay, North Kazakhstan, Aktubinsk, western Kazakhstan and Akmola). In other oblasts barley production is insufficient.

Trade**Wheat**

MY 2006/07 wheat exports are expected to increase to 4.5 MMT due to anticipated lower crops in Russia and Ukraine and anticipated improved quality of Kazakh wheat. Major markets will remain neighboring CIS countries and also small quantity will be shipped to Europe. Specialists expect significant increases in wheat exports to Russia and Ukraine due to anticipated smaller crops in 2006 in those countries related to winter kill which affected about 30% of winter wheat. Kazakh wheat is better quality for bread production and it is utilized for blending with local wheat for flour production. Russia, Azerbaijan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkey are expected to remain the major importers of Kazakhstan wheat. Western European and Scandinavian countries are expected to buy small quantities of high quality bread wheat in the coming year.

The small quantities of high quality Kazakh wheat and high transit tariffs have been the major limiting factor for wheat exports in 2005. Since the beginning of 2005 the Russian railway has increased tariffs for transit through the Russian territory by 20 percent. Specialists assumed that it was made to protect Russian grain producers from competition with higher quality Kazakh wheat on the European markets. Despite these constraints, total MY2005/06 wheat exports are expected to increase by 500,000 MT compared with the previous season due to higher production and lower exports prices. Major exports are expected to Russia (1.2 MMT), neighboring CIS countries and Turkey.

Barley

Kazakhstan's MY 2006/07 barley exports are forecast at 300,000 MT assuming higher demand from traditional importers as Russia, Iran and the European Union. Specialists expect lower feed grain production in Russia and Ukraine, which will lead to lower exports from these countries.

MY2005/06 barley exports are estimated at 100,000 MT, which were constrained by strong competition with Russian and Ukrainian feed grains. Like wheat, high transportation costs are major constraint for barley exports.

Stocks

MY 2006/07 wheat stocks are expected to decline by 500,000 MT to 3.5 MMT due to anticipated higher exports and stable domestic consumption. The GOK is planning to increase State reserves of wheat from 500,000 MT to 550,000 in MY 2006/07. The remaining stocks are held in elevators by grain processors and traders.

MY 2005/06 stocks are expected to increase to 4.0 MMT due to lower exports and slight increases of domestic consumption. According to the specialists, about 50 percent of these stocks will be feed wheat.

MY 2006/07 barley ending-stocks are forecast to decrease by 50,000 MT to 100,000 MT due to higher exports and a slight increase in domestic consumption. No official data is available regarding state reserves for barley. However specialists assume that reserves will not exceed 10,000 MT. The remaining stocks are held by livestock farmers and compound feed producers.

Policy

The GOK continues to support grain producers with subsidies for seeds, fertilizers, chemicals, machinery and fuel. In 2006 the GOK is planning to allocate about 28 billion KZT for these subsidies, including 8 billion KZT for fuel, 8 billion KZT for leasing machinery and 2 billion for the inputs.

The GOK is attempting to improve infrastructure in foreign ports, which handle Kazakh grain. The SFC is considering construction of a grain terminal in Baku with capacity of about 300,000 MT per year. That would allow exports of wheat via the Caspian Sea to the Caucasus with lower transportation costs. The construction of the terminal is planned for in 2006.

Marketing

The State Food Corporation (SFC) is responsible for the maintaining state grain reserves and for market intervention. SFC continues to play a significant role for domestic and exports sales. In MY 2005/06 the SFC procured about 500,000 MT of wheat for rotation of state reserves and about 1.7 MMT for intervention. By dealing with large volumes of grain, SFC is significantly affecting export and domestic prices. In MY2005/06 SFC decreased prices for wheat purchased for state reserve to \$85 from \$90-95 in the previous year due to lower exports demand and stable domestic consumption.

In MY2006/07 the SFC will purchase 550,000 MT of wheat for rotation of state reserves and about 2.0 MMT for commercial sales with average price of \$85-\$87 per tone. Prices can be adjusted during the season in accordance with market prices (export and domestic).